GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:282
ANSWERED ON:10.08.2001
VALUE ADDED TAX (VAT) SYSTEM
GANGASANDRA SIDDAPPA BASAVARAJ;TRILOCHAN KANUNGO

Will the Minister of FINANCE be pleased to state:

(a) whether the Government propose to introduce uniform Value Added Tax(VAT) system in the States from April,2002;

(b) if so, the details of the system and manner in which it is better than single and first point Sales Tax System so far as volume of collection is concerned;

(c) whether the multi-point sales tax system was done away with because of rampant corruption and resultant evasion;

(d) if so, the present advantages of VAT system over multi-point sales tax system; and

(e) the manner in which backward and poor States, where arrangement for value addition is less, would benefit more from the introduction of VAT?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GINGEE N. RAMACHANDRAN)

(a),(b),(c),(d) & (e):A Statement is laid on the Table of the House.

Statement in respect of Lok Sabha Starred QuestionNo.282 for 10.8.2001 tabled by S/Shri TrilochanKanungo and G.S. Basavaraj regarding Vale Added Tax(VAT) System.

(a) As per Entry 54 of the List II of the 7th Scheduleto the Constitution of India, Sales tax is a Statesubject. Chief Ministers of States and Union Territories have unanimously decided to shift to a Value Added Tax regime w.e.f. 1.4.2002. Special Category and newly formed States have an option to introduce VAT by 1.4.2003.

(b) VAT is a tax that is levied on the value added along different stages of production and distribution of a commodity or service giving full set-off to tax on inputs at each stage of value addition. VAT permits a larger coverage in as much as it is possible to extend it to value addition at all stages in the production-distribution chain. Therefore, the potential for raising resources in a simple, efficient and neutral manner is high making it a buoyant source of revenue

(c) There are variations in types of sales-tax inthe Indian State, but there is a pre-dominantreliance on first point sales-tax in preference to multi-point sales tax system, as the latter has more of a cascading effect with larger number of assessees.

(d) VAT eliminates cascading of taxes by giving set-off on inputs. It eases administration through self-monitoring feature of invoices. It is simple and transparent as it collects the quantum of tax payable at every stage of transaction. Since VAT permits relatively larger coverage in the production-distribution chain, the potential for raising resources efficiently is generally high.

(e) VAT is an efficient system of commodity taxation with global acceptability and popularity. Geographical location or backwardness is not an impediment for introduction of vat.